TEACHERS' PENSION PLAN
ONTARIO





# Pension News

FORMATION FOR RETIRED TEACHERS AND THEIR SURVIVORS SPRING 2004



## Teachers' fund reports 18 per cent return

The Teachers' Pension Plan achieved an 18 per cent rate of return for 2003, the third best investment performance in the fund's history. Net assets rose to $75.7 billion from $66.2 billion in 2002.

"We were surprised by the strength of the markets this year," said Claude Lamoureux, President and CEO. "All asset classes performed well for us in 2003, significantly outperforming market benchmarks."

Despite the solid performance, the plan showed its first funding shortfall since 1990. The cost of paying benefits in the future is $6.2 billion more than the plan's assets.

### Your pension is safe, payable for life. It is protected under the *Ontario Pension Benefits Act.*

"Your pension is secure. The Ontario government and the Ontario Teachers' Federation, the plan's co-sponsors, will decide how to deal with the funding shortfall," Claude said.

"If the shortfall continues for three years, 2006 in this case, one of the actions the plan sponsors could take is to increase contributions for both teachers and the government."

More information on the plan's financial status will be presented in the annual *Report to Members*, which will be mailed or e-mailed to you soon.

You can also watch a Webcast on April 1, beginning at 5 p.m. at www.otpp.com. Live presentations by plan executives will be followed by questions. If you would like to ask a question, please e-mail it to communications@otpp.com by March 29. You can also view the presentations anytime after April 1 at your convenience. ■

*Member Irene Chewchuk can view a Webcast of the fund's performance from the comfort of her home.*

### Inside this issue...

# Why your pension is reduced at age 65

Susan Jones can't understand why her annual Teachers' pension will be reduced by $4,900 when she turns 65 next month.

She's not alone. Many pensioners are surprised when the CPP reduction goes into effect. In reality, Susan and other pensioners will receive more pension after age 65 than they were promised at retirement because of retroactive plan improvements that changed the CPP reduction formula.

The Ontario Teachers' Federation and the Ontario government, the plan's co-sponsors, changed the reduction factor three times (in 1997, 1998 and 2001) to enable you to keep more of your Teachers' pension after age 65.

The reduction factor is now 0.45 per cent, down from 0.7 per cent in 1996. The changes will allow Susan to keep $2,910 more per year in Teachers' pension payments after age 65. That extra amount means Susan's combined Teachers' and CPP pension income will be higher after age 65 than it was before. That's true for most pensioners because their Teachers' pension isn't reduced by as much as they will receive from CPP at age 65, resulting in a higher combined income.

Understanding why the reduction exists and how the Teachers' plan is integrated with CPP isn't easy. Here's how integration works.

## You pay less and collect less on some of your earnings

The contribution and benefit formulas for your Teachers' pension recognize your participation in CPP.

When you worked, you paid a smaller amount to the Teachers' plan on that portion of your earnings on which you also paid into CPP. Similarly, in retirement, you receive a smaller amount from the Teachers' plan on that portion of your income on which you also receive CPP payments. The lower amount doesn't kick in until age 65 when you qualify for normal CPP retirement benefits (or earlier if you die or collect CPP disability benefits). If you decide to collect CPP early, your Teachers' pension continues to be unreduced until age 65.

## Reduction not directly linked to CPP

In 1966, the Teachers' plan was integrated with the newly established CPP. The move was designed to keep the combined costs and benefits from both plans comparable to what they had been in the Teachers' plan alone before 1966.

Contributions to the Teachers' plan were reduced by roughly the same amount members were required to contribute to CPP. In turn, benefits from the Teachers' plan were reduced to reflect benefits payable from CPP at age 65.

While the plans remain integrated, the contribution and benefit formulas are no longer directly linked because:

- CPP offers reduced retirement pensions as early as age 60;
- CPP contribution rates have increased since 1966; and
- the Teachers' plan now provides higher pensions after age 65 as a result of improvements in its CPP reduction factor. ■

# McClean welcomes challenge in new role

Rosemarie McClean is the new vice-president of Member Services. In addition to overseeing the services provided to you, Rosemarie is now responsible for employer services, actuarial services, accounts receivable and tax compliance.

Rosemarie joined the Teachers' plan as a pension benefits specialist in 1986, rising through the ranks to the top position in Member Services and a place on the plan's executive team.

During these 18 years, Rosemarie helped transform the customer service landscape. Under her leadership, the client services group was organized into self-directed work teams that dramatically improved the speed, range and quality of client services. The introduction of new technology made it possible to offer many new services, ranging from Web-based retirement planning tools to immediate access to personal pension files.

Rosemarie holds an MBA from the Rotman School of Management, University of Toronto, and a BA in Economics from the University of Waterloo.

"I'm always looking for new and creative ways to impress our pensioners," said Rosemarie, who was promoted in January in preparation for Allan Reesor's retirement in March.

"Our challenge this year is to improve our high levels of customer satisfaction by continuing to do what we do well, while expanding our ability to deliver immediate, personal service," she said.

Last year, members rated our services at nine out of a possible 10, one of the highest scores ever achieved. The ratings were given during telephone surveys conducted to track the quality of our communications and services.

"We really appreciate the positive feedback from pensioners," Rosemarie said. "Keep an eye on our secure Web site for more improvements."

*Rosemarie McClean, vice-president, Member Services*

*Part three of an ongoing investment series*

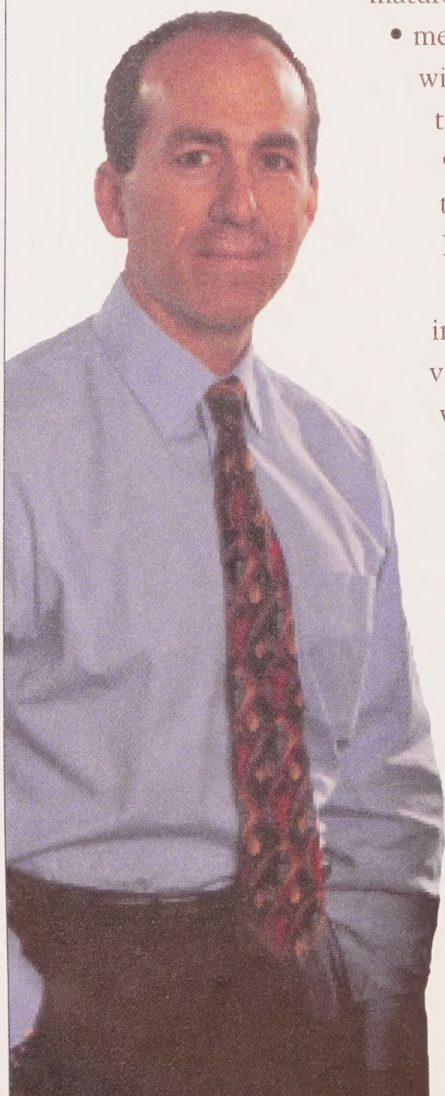
# Bonds provide stability, help balance invest

Many people think bonds are dull. But the team that invests the fixed-income portfolio for the Teachers' Pension Plan knows there's nothing boring about bonds when billions of dollars are at stake.

A bond is a certificate issued by a government or company, promising to repay borrowed money at a stated rate of interest at a specified period of time. Bonds mature or become redeemable after one to 30 years. The plan holds:

- short-term bonds, which mature within three years;
- medium-term bonds, with a life-span of three to 10 years; and
- long-term bonds that mature after 10 years or more.

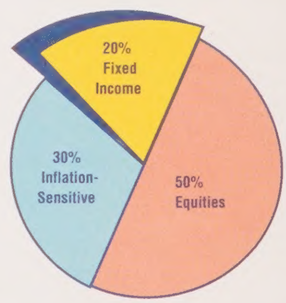
Generally, when interest rates fall, the value of bonds rises and when interest rates rise, the value falls.



*Neil Petroff, senior vice-president, International Equity Indices, Fixed Income and Alternative Investments*

Billions of dollars worth of bonds and other securities are traded every year from the fund's trading room in an office tower in northern Toronto. Transactions take place over the phone or by computer with investors located all over the world. Investors buy and sell bonds before their terms mature with the hope of making more than the interest rates payable.

**Target asset mix**




Many people think bonds achieve lower returns than equities, their more volatile cousins, but they can be stellar performers when the right market conditions combine with good investment decisions.

"Our financial results for 2003 show we achieved the best relative returns for fixed income in the fund's history," said Neil Petroff, senior vice-president, International Equity Indices, Fixed Income and Alternative Investments.

Ontario government bonds and debentures continue to be the plan's largest holding, with a value of more than $15 billion.

The second largest holding is Government of Canada bonds, worth more than $7 billion. Other components of this portfolio include other government and corporate bonds, money market securities, senior secured loans and derivative contracts.

# ent risks and rewards

Until 1990, the plan was required to invest all assets in Ontario government debentures. Now the Teachers' Pension Plan has full authority to invest in the best financial interests of members. Today, 26 per cent of the plan's net assets are invested in fixed-income assets, with bonds comprising the largest chunk of the pie.

Bonds, along with almost $2 billion in money market investments, provide the plan with stability and liquidity – the ability to buy or sell an investment with relative ease.

"We manage the liquidity of the entire fund. We're the bank. We manage cash flows and make sure there is adequate capital to pay benefits," said Neil, who joined the plan as a portfolio manager 11 years ago.

"Diversification is the best way to ensure consistent returns."

It's a strategy the 16-member fixed-income team has mastered well, outperforming the markets in each of the last five years and adding hundreds of millions of dollars in value over the benchmark indices. ■

## Here's how to measure our investment performance

You can measure how the Teachers' pension fund has performed by comparing the fund's rates of return to benchmarks in the marketplace.

Standard market indices are used to evaluate the performance of different classes of assets. For example, the rate of return of the plan's Canadian equity portfolio is compared to its benchmark, the Toronto Stock Exchange (TSX) and the Standard & Poor's composite index. To measure the plan's overall performance, there's a composite index, a weighted average of all the market benchmarks.

"We have no control over the direction of the markets we invest in, which are determined by many factors outside our control. But we can control our investment strategies and their tactical execution. In these areas, we strive to make a difference," said Bob Bertram, executive vice-president, Investments.

While one-year returns can make a difference, the 10-year rate of return is more important because of the long-term nature of the plan's investments. After all, money invested today may not be paid out in the form of pensions for 70 years or more.

"The plan aims to add value over many years, not just one, so it's important to view our performance over the longer term," Bob said.

"Value added" is the portion of the plan's investment returns that exceeds the market benchmark for the total fund. For example, if the fund earned 10 per cent against a benchmark of eight per cent, the valued added portion is two per cent.

Our investment managers have added more than $10 billion to the fund in cumulative value (above-benchmark returns) by outperforming the markets since we began investing in 1990.

The plan's investment performance will be highlighted in the annual *Report to Members*, which will be mailed or e-mailed to you in April. ■

# You Asked Us?

*Q* *Can you take more tax off my pension?*

*A* Yes. If you have other sources of income, you may owe the government money at tax time. If you want more income tax deducted from your monthly payment, let us know by phone, fax or mail. We need your name, social insurance number and the amount to be deducted, expressed as a monthly amount or a percentage of your before-tax Teachers' pension.

*Q* *Can I get a list of your major investments? Your returns are better than my own investments.*

*A* Our top 50 investments are published annually in the *Report to Members*, which will be sent to you in April, and on our Web site at www.otpp.com. However, we caution against matching our investment strategy. Our asset mix, liabilities and investment horizon may be significantly different than yours. We invest for the long term to enable us to pay pensions 70 years from now. We also have numerous investment opportunities, partly because of our size, that are available only to major investors.

*Q* *What happens to my pension after I reach the 95-day re-employment limit?*

*A* Notify us and your employer. We will suspend your pension the month after you reach the limit. The suspension continues for as long as you remain employed. When you stop working, notify us so we can start your pension again the month after you cease employment. If you are working on contract, you must resign from your position before we can reinstate your pension.

*Q* *Why was my February pension payment higher than my January payment?*

*A* If you belong to the Retired Teachers of Ontario (RTO), we deducted your annual membership fee on behalf of the organization from your January pension payment. The fee for full membership in RTO is $1.25 for every $1,000 of gross annual pension. To save mailing costs, we notified pensioners of the size of the deduction in personal pension payroll notices distributed in January. Your March pension payment should match your February payment, unless you turn age 65 in February. In that case, your pension will be reduced in March when the CPP reduction goes into effect. As usual, we'll notify you in advance if there's any change in your pension payment.

## Your 2004 pension payment schedule

Your pension payment is deposited on the last business day of every month. There is no early payment in December like there used to be years ago when an earlier deposit was necessary to ensure your pension arrived by the end of the year. You may want to mark these dates in your calendar for easy reference.

| Month | Deposit date |
|---|---|
| March | Wed., March 31 |
| April | Fri., April 30 |
| May | Mon., May 31 |
| June | Wed., June 30 |
| July | Fri., July 30 |
| August | Tues., Aug. 31 |
| September | Thurs., Sept. 30 |
| October | Fri., Oct. 29 |
| November | Tues., Nov. 30 |
| December | Fri., Dec. 31 |

# What happens to your pension if you die without a will

No will is required to pay pension benefits if you have an eligible spouse or eligible dependent children when you die. If not, a will enters prominently into the picture. Read on for details.

### 1. Eligible spouse

A percentage of your pension is automatically paid for life to your eligible spouse after your death. If your current spouse is different from the spouse you were living with when you began to collect your pension, make sure you know whether he or she is eligible for benefits.

### 2. Eligible children

If you have no eligible surviving spouse, your dependent children are next in line for your pension. Once again, the children don't need to be identified in your will to qualify for benefits. They are automatically eligible if they are dependent on you for support at the time of your death and are under age 18; or between 18 and 25 and enrolled in full-time continuous education; or disabled and financially dependent.

### 3. No eligible spouse or children

If you don't have an eligible spouse or dependent children, your estate will receive any benefits payable. If you don't have a will, family law defines how your estate will be divided and it may not be as you would wish. In addition, your estate may be subject to heavy taxes and legal fees. Keep in mind that death benefits for members without an eligible spouse or dependent children are normally payable only if the member dies within 10 years of the start of the pension, under the 10-year pension guarantee (G10). The G10 is provided automatically to members who are single when they begin to collect their pension and as an optional feature to members with an eligible spouse.

### The right paperwork can help

"It's always a good idea to maintain an up-to-date will, even if you have a spouse or children who are automatically entitled to your pension benefits. We've seen a lot of heartache over the years that could have been avoided with the proper legal paperwork," said Rosemarie McClean, vice-president, Member Services.

For more information on survivor benefits, visit our Web site at www.otpp.com or call 416-226-2700 or 1-800-668-0105 weekdays, from 8 a.m. to 5:30 p.m.

## Did you know?

- You can receive your pension in seven foreign currencies.
- It takes an average of 28 seconds to reach a pension benefits specialist on the telephone.
- We answer your telephone inquiries on the spot about 85 per cent of the time.
- We added more than 42,000 retired teachers to our monthly pension payroll during the past six years.
- We now pay about $3.4 billion a year to pensioners and their survivors.

# Test your pension plan IQ

Do you know who is responsible for making important decisions about your pension? In a recent survey, only seven per cent of members could identify the correct source. Test your knowledge with our quick quiz.

**1. Who can make changes to your pension benefits, such as improved pensions at age 65?**

a. The Teachers' Pension Plan
b. The Ontario government
c. The Ontario Teachers' Federation (OTF)
d. The Ontario government and OTF jointly
e. All of the above
f. None of the above

**2. Who decides how much members contribute to their pension plan?**

a. The Teachers' Pension Plan
b. The Ontario government
c. The Ontario Teachers' Federation (OTF)
d. The Ontario government and OTF jointly
e. All of the above
f. None of the above

**3. Who is responsible for investing the plan's assets?**

a. The Teachers' Pension Plan
b. The Ontario government
c. The Ontario Teachers' Federation (OTF)
d. The Ontario government and OTF jointly
e. All of the above
f. None of the above

**4. Who is responsible for paying pensions every month?**

a. The Teachers' Pension Plan
b. The Ontario government
c. The Ontario Teachers' Federation (OTF)
d. The Ontario government and OTF jointly
e. All of the above
f. None of the above

**5. Who appoints members to the Teachers' Pension Plan Board of Directors?**

a. The Ontario government appoints all board members
b. The Ontario Teachers' Federation appoints all board members
c. The Ontario government and the OTF each appoint an equal number of members and jointly select a chair
d. The Ontario government and OTF jointly appoint each board member
e. None of the above

**Answers:** 1.d, 2.d, 3.a, 4.a, 5.c

Pension News

Ontario Teachers' Pension Plan
5650 Yonge Street
Toronto, Ontario M2M 4H5
Client Services
**Phone:** (416) 226-2700 or 1-800-668-0105
**Fax:** (416) 730-7807 or 1-800-949-8208
**E-mail:** inquiry@otpp.com
**Web site:** www.otpp.com

We appreciate your comments about anything you read in *Pension News*. Please contact Debra Hanna at (416) 730-5351 or 1-877-812-7989 or e-mail: debra_hanna@otpp.com



Ce bulletin est disponible également en français.

ISSN 1180-3282